

## Message Text

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TAGS: OREP, PINT, PFOR, ECON, EGEN

SUBJECT: CODELS YATRON AND WOLFF: WORKING LUNCHEON WITH  
FOREIGN MINISTER AND BRIEFING

1. SUMMARY: CODELS' AUGUST 13 WORKING, SESSIONS MARKED BY  
PLEA BY FONMIN FOR U.S. LEADERSHIP TOWARD GREATER  
INTERNATIONAL SENSITIVITY TO URGENT NEEDS OF DEVELOPING  
WORLD. THIS CABLE SUMMARIZES DISCUSSIONS AT FON MIN'S  
WORKING LUNCHEON AND BRIEFING AT NATIONAL PLANNING  
INSTITUTE. IT HAS BEEN CLEARED BY CODELS.  
END SUMMARY.

2. WORKING LUNCHEON GOT UNDERWAY WITH PREPARED STATEMENT BY  
FOREIGN MINISTER WHICH WAS DELIVERED IN SPANISH BUT DISTIRBUTED  
IN ENGLISH TO CODELS (POUCHING COPY DEPARTMENT ARA/AND/P).  
FONMIN STRESSED (A) THAT PERU AT CROSSROAD BETWEEN "APPRESSIVE  
PAST, DIFFICULT PRESENT, AND PROMISING FUTURE" (B) PEACEFUL  
AND HUMANITARIAN POLICIES OF REVOLUTIONARY GOVERNMENT (C) SYMPATHY  
WITH GOALS OF THIRD WORLD ANDNON-ALIGNED COUNTRIES, AND (D)  
DETERMINATION OF MORALES BERMUDEZ TO ACHIEVE FULL POPULAR  
PARTICIPATION IN PERUVIAN POLITICAL PROCESS. HE BLAMED  
"SENSATIONALIST AND SOMETIMES IRRESPONSIBLE JOURNALISM"  
FOR FOMENTING "FALSE CLIMATE OF WARLIKE ALARM" IN THE REGION  
WHICH IS NOW BEING DISSIPATED. FON MIN DESCRIBED POLITICAL  
CLIMATE IN PERU AS "MARKEDLY OPEN", IN WHICH "THE ATMOSPHERE  
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OF A GROWING FREEDOM OF EXPRESSION IS EVIDENT". HOWEVER,  
FONMIN NOTED, PRECISELY BECAUSE OF PERUS AUDACIOUS EXPERIMENT  
IN POLITICAL AND ECONOMIC DEMOCRATIZATION, THE COUNTRY NOW  
FINDS ITSELF IN THE MIDST OF A MENACING ECONOMIC AND FINANCIAL  
CRISIS. THIS CRISIS CANNNOT BE SOLVED BY "SEVERE FORMULAS"  
WHICH COULD COMPROMISE "THE HUMANITARIAN NATURE OF OUR ENTIRE  
POLITICAL EFFORT." FONMIN CONCLUDED WITH PLEA FOR U.S.

LEADERSHIP TOWARD GREATER INTERNATIONAL SENSITIVITY TO THE URGENT NEEDS OF THE DEVELOPING WORLD (AND, IMPLICITLY, TO THE REALITIES OF THE PERUVIAN ECONOMIC CRISIS).

3. IN REPLY TO QUESTION ON PRESENT STATUS NEGOTIATIONS WITH IMF FOR STANBY, FONMIN REPLIED THAT NEGOTIATIONS HAD NEVER REALLY BEEN BROKEN OFF, BUT NOTED THAT THE IMF TEAM HAD RECOMMENDED SOME MEASURES WHICH WERE POLITICALLY AND SOCIALLY UNREALISTIC. FONMIN NOTED THAT SOLUTION TO PERU'S PRESENT FINANCIAL CRISIS MUST TAKE INTO ACCOUNT POLITICAL REALITIES, BUT ADDED THAT PERU CONTINUES TO WANT TO WORK WITH THE IMF AND PLANS TO DO SOM.

4. HEAD OF NATIONAL PLANNING INSTITUTE GEN. JORGE CHAVEZ, WHO ATTENDED WORKING LUNCHEON, ADDED THAT HE HOPED U.S. CONGRESSMEN COULD HELP WITH IMF. PRESENT FUND POSITION WAS TOO RIGID, HE SAID, AND ALTHOUGH IT IS CLEAR TO ALL THAT PERU FACES SERIOUS SHORT-TERM PROBLEMS, A PURELY TECHNICAL APPROACH TO A SOLUTION WHICH IGNORES SOCIAL CONSIDERATIONS CANNOT SUCCEED. POLICY-MAKERS, FOR EXAMPLE, MUST BE AWARE OF THE DELICATE HUMAN RIGHTS ISSUES INVOLVED, AND THE DIFFICULTIES THAT COULD RESULT IF THE GOVERNMENT TRIED TO ENFORCE A HARSH PROGRAM ON THE POPULACE.

5. HERNAN BARRETO, GENERAL MANAGER OF THE BANCO DE LA NACION, ADDED THAT WHILE HE HAS A HIGH REGARD FOR THE PRO-

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FESSIONAL CAPABILITIES AND TECHNICAL SKILLS OF WORKING-LEVEL IMF ECONOMIC ANALYSTS, THE PRESCRIPTION WHICH THEY OFFERED FOR THE SOLUTION TO PERU'S PROBLEMS WAS MISTAKEN IN THAT THEY ASKED FOR TOO MUCH, TOO SOON IN THE WAY OF AUSTERITY MEASURES. PERU SIMPLY CANNOT MOVE TOWARD THE DESIRED STABILITY GOALS AS FAST AS THE IMF TEAM WANTED IT TO, BARRETO SAID. HOWEVER, AS THE IMF REMAINS THE KEY TO SUPPORT FROM THE INTERNATIONAL BANKING COMMUNITY, THE GOP WILL CONTINUE TO TRY TO DEAL WITH THE FUND IN THE HOPE THAT IT WILL SHOW GREATER FLEXIBILITY.

6. IN REPLY TO A QUESTION CONCERNING PERUVIAN ARMS PURCHASES AND SOVIET INFLUENCE IN PERU, THE FONMIN LAUNCHED INTO HIS NOW-FAMILIAR DEFENSE OF PERUVIAN ARMS PURCHASES (PARTICULARLY AIRCRAFT) FROM THE USSR. AS NEEDED TO RENOVATE PERU'S DEFENSES AND UNAVAILABLE FROM THE U.S. AND OTHER WESTERN SUPPLIES. (HE RECOGNIZED THAT SOVIET PLANES RECENTLY ACQUIRED AS A RESULT WERE MORE SOPHISTICATED THAN PERU NEEDS). GENERAL CHAVEZ ADDED THAT DUE TO PERU'S ECONOMIC DIFFICULTIES IT WAS UNDER PRESSURE TO MEET ITS VITAL NATIONAL DEFENSE AND SECURITY NEEDS IN THE MOST ECONOMICALLY VIABLE WAY. HE STRESSED THAT PERU HAS BEEN THE VICTIM AND NEVER AN

AGGRESSOR; THUS, PERU'S NEIGHBORS SHOULD NOT QUESTION ITS INTENTIONS. GOP OFFICIALS ARGUED THAT THE HUMANIST, CHRISTIAN IDEOLOGY OF THE REVOLUTIONARY GOVERNMENT WAS SAFEGUARD AGAINST UNDUE FOREIGN INFLUENCE.

7. THE PERUVIAN GROUP WAS THEN ASKED WHETHER PERU REALLY NEEDED TO ACQUIRE SOPHISTICATED WEAPONRY. WHO WERE PERU'S POTENTIAL ENEMIES AND FOR WHAT REASON WOULD A WAR BEGIN? THE FON MIN REPLIED BY ASKING WHY THERE SHOULD BE SUCH A NEGATIVE REACTION TO PERU'S ARMS PURCHASES. PERU WANTS GOOD RELATIONS WITH ALL THE COUNTRIES OF THE WORLD WHICH RESPECT PERU'S NATIONAL SOVEREIGNTY. BUT NOT ONLY NATIONAL PRIDE BUT ALSO NATIONAL SECURITY DEMAND THAT PERU REMAIN STRONG.

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8. IN REPLY TO A QUESTION ABOUT PERU'S VIEWS ON NARCOTICS AND DANGEROUS DRUGS, FON MIN REPLIED THAT THIS QUESTION RECEIVED VERY HIGH PRIORITY WITHIN GOP WHICH VALUED THE CLOSE COOPERATION OF THE U.S. GOVERNMENT. WHILE MUCH OF PERU'S RURAL POPULATION IS INVOLVED IN COCA PRODUCTION, HE NOTED, VERY LITTLE PROFIT IS MADE BY THE PERUVIAN GROWERS AND NONE BY THE GOVERNMENT -- THE REAL PROFIT IS MADE ELSEWHERE. IT WAS NOTED THAT FURTHER DISCUSSIONS WITH SENIOR GOP OFFICIALS ON THIS SUBJECT WOULD TAKE PLACE LATER IN THE AFTERNOON.

9. IN REPLY TO A QUESTION PROBING FOR DETAILS ON THE PRESENT PERUVIAN ECONOMIC CRISIS, BARRETO BLAimed THE INTERNATIONAL ECONOMIC RECESSION PLUS GOP (FIRST-PHASE) OVERINVESTMENT IN LONG-RANGE DEVELOPMENT PROJECTS FOR THE PRESENT CRISIS. MANY DEBT SERVICE OBLIGATIONS FOR EARLIER LOANS TO FINANCE THESE DEVELOPMENT PROJECTS WERE NOW COMING DUE, HE NOTED, AND EXPORTS (WITH FALLING COPPER PRICES, DISAPPOINTING OIL-PRODUCTION, ETC.) HAD FAILED TO PROVIDE THE INTERNATIONAL EXCHANGE REQUIRED TO MEET THESE OLBIGATIONS. BARRETO ESTIMATED THAT SOME 700 MILLION IN SHORT-TERM OBLIGATIONS WOULD BE COMING DUE SHORTLY, AND THAT PERU'S TOTAL FOREIGN DEBT WAS IN THE 5 BILLION DOLLAR RANGE.

10. FOLLOWING LUNCHEON CODEL YATRON MET WITH GEN. CHAVEZ AT INP HEADQUARTERS. AFTER AN EXPOSITION BY GENERAL CHAVEZ ON THE NATURE OF THE PLANNING SYTEM, THE GENERAL WAS ASKED HOW U.S. COULD BEST ASSIST PERU AT IT MOVES TO CIVILIAN GOVERNMENT THROUGH IMPLEMENTATION OF THE NATIONAL PLAN. REPLY WAS THAT CONTINUED ECONOMIC AND FINANCIAL COOPERATION OF COURSE HELPFUL. IN ADDITION, IT WAS SUGGESTED THAT COINCIDENCES IN POLITICAL AND IDEOLOGICAL APPROACHES ARE SUPPORTIVE. ALSO U.S. SHOULD LIMITED OFFICIAL USE

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UNDERSTAND THAT RIGOROUS ECONOMIC AUTERITY MEASURES (A LA IMF)

11. GENEAL CHAVEZ WAS THEN AKSED WHETHER INP HAS REAL AUTHORITY TO IMPLEMENT ITS PLANS THROUGH GOVERNMENT BUDGETS, PRIORITYS, ETC. REPLY WAS THAT PLANS APPROVED BY CABINET ARE OBLIGATORY FOR PUBLIC SECTOR AND NORMATIVE FOR PRIVATE SECTOR. PLANNING ENTITIES IN EACH MINISTRY AND REGION MUST FOLLOW APPROVED NATIONAL PLANS. INP AND MINISTRY OF ECONOMY MUST APPROVE EACH GOVERNMENT PROJECT GOING INTO THE NATIONAL BUDGET.

12. NEXT QUESTION WAS WHETHER INP GETS INVOLVED IN MILITARY AND POLITICAL ASPECTS OF NATIONAL PLAN. REPLY WAS THAT ALL PLANNING HAS POLITICAL IMPLICATIONS, AND THERE WHOULD BE ONLY ONE SYSTEM OF PALNING BECAUSE RESOURCES ARE LIMITED AND VERY-THING IS INTERRLATED. BUT IMPLICATION WAS THAT CENTRAL PLANNING CONTROL OVER DEFENSE EXPENDITURES IS ONLY A GOAL AT PRESENT.

13. FINAL QUESTION WAS WHETHER GOP IS FARTHER ALONG ON ITS PLITICAL AND DEFENSE PLANNING OBJECTIVES THAN ECONOMIC. REPLY WAS IMPRECISE, NOTING THAT PROGRESS IS REAL BUT HARD TO QUANTIFY, AND SUGGESTING THAT ECONOMIC GAP IS PROMARILY DUE TO EXTERNAL PROBLEMS.  
SHLAUDEMAM

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